

Mining in Russia: An Introductory Study

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Introduction

The mining industry is of vital importance to Russia. Russia's economy is very much centred on the exploitation of natural resources. Since the fall of the Soviet Union Canadian companies have been playing a leading role in developing mining projects in Russia and other former Soviet republics. This analysis offers an introduction to some of the issues surrounding the Russian mining industry in general and the participation of Canadian companies in that industry. Related issues such as the treatment of native peoples, the environment and general economic changes in Russia are also touched upon. This analysis does not claim to reveal the depths of the Russian mining industry or bring to light the secrets of the political intrigues of the mine owners. This is a general report about the environmental and social conditions prevailing in mines in the Russian Federation, the activities of social pressure groups and the regulatory environment in Russia pertaining to mining and exploration and about the activities of the Canadian government in regard to Canadian mining interests in Russia. It is hoped that the report will give the reader an understanding of some of the issues and problems surrounding a vital industry that has the potential to both enrich and destroy.

Some figures on investment and trade

As a country featuring one-third of the world's natural resources and a cheap but qualified work force, Russia attracted a growing number of Canadian traders and investors through the mid-1990s. However, this process was interrupted after the economic crisis began in 1998, and investment levels have not yet returned to those of the period preceding 1998. In 1998 Russia defaulted on its loans to Western creditors and declared bankruptcy. Within a few weeks the price of the rouble fell by 300%. The currency reserves of the central bank plummeted and the country was mired in debt. Wages and pensions remained unpaid for months. Fierce strikes seized Russian mines. Some economists now look at this situation favourably, in the sense that the crisis allowed renewal of the economy; weak banks collapsed, only the strongest and most competent banks survived. Not all businesses suffered from the crisis. Many export-oriented industries, like gold mining, have benefited from the rouble devaluation and resulting decreased production costs. They were able to pay back loans easily and with the world's market prices for gold beginning to stabilise, gold mining companies' profitability and its attractiveness for the investors grew significantly.

The arrival of President Vladimir Putin to power at the end of 1999 coincided with a sudden elevation of world's price of oil. This event together with some tax reforms including a uniform 13% income tax (which made the system easier to understand and encouraged those with higher incomes to actually pay their taxes), and commodity price reforms enabled Russia to establish a trade surplus and increase the currency reserves of the central bank. The country attained economic stability thus strengthening the investment climate.

Yet, Canada's direct investment in Russia in 2002 is estimated at only \$940 million (mainly in the oil and gas, mining, food and high technology sectors)¹ while private capital flows total US\$6.1 billion (2001)². Canada ranks 19th among foreign investors in Russia. The amount of foreign direct investment (FDI) in Russia was only about US\$12 billion since 1992 compared to over US\$350 billion for China. Canadian investments in Russian economy totalled US\$887 million in the same year, which

is 0.5% of total Canadian foreign investments.³ Over 50% of the FDI is concentrated in Moscow.⁴ Over half of all investments are in the mining industry. This puts Canada in a leading position in terms of investment in the mining industry.

In addition to business investment, the Canadian government actively supports development projects in Russia. Russia is CIDA's sixth largest country programme, with over \$150 million committed to more than 200 projects since 1991.⁵ Canada has also been involved in financially supporting efforts to clean up Russia's nuclear submarine fleet in the Far North. There are now about 50 Canadian companies working in Russia in the areas of engineering, legal¹, government and public services, banking and financial services, aerospace and defence, education, information technologies and telecommunications, healthcare, agriculture, transportation and others.⁶

Companies that work in the mining industry include the Barrick Gold Corporation (Murmansk area), Bema Gold and Kinross Gold (Magadan area), High River Gold (republic of Buryatia), Hatch Associates (Komi area), Canargo Energy Corp. (Georgia), Placer Dome, Argosy Minerals Inc, Western Pinnacle, Arian Resources, Cameco (Kazakhstan) and some others, working mainly in the North.

Bilateral trade

Trade between the two countries began in 1992, slowed down after the Russian financial crisis in 1998, but has been increasing again since 2002, particularly Canadian exports in the areas of oil and gas equipment, building products, tobacco, and pork products. Anecdotal evidence suggests that Canadian exports to Russia are some 50% higher than official statistics that do not capture transshipments through third countries or services exports.⁷ It is also suggested that up to 30 percent of Russia's gold production is sold illegally.⁸ Russian exports to Canada decreased between 1999-2001. They are primarily crude oil, iron and steel, base metals, fish and seafood and precious metals.⁹ The total bilateral trade between the two countries was only \$520 million in 1999.¹⁰ Canada-Russia total bilateral trade was \$868 million in 2000, \$650 million in 2001 and \$623 million in 2002. In 2003 it has grown essentially: in the first half of 2003 the total turnover reached US\$330, 9 million (this is 79% more than in the first half of 2002), including export - US\$225,3 (twice as much), import - US\$105,6 (by 44% more). Still, the percentage of total Russian imports from Canada is only 0.19%, and exports are only 0.08%.¹¹

The legal relationship between the two countries

Canada and Russia have signed a number of bilateral treaties and agreements since the fall of the Soviet Union. The majority of these agreements deal with the Arctic and with natural resource exploitation. *The Agreement on Cooperation in the Arctic and the North* was signed with the USSR in 1989 (a similar agreement was signed with the Russian Federation in 1992). *The Agreement on Stimulation and Mutual Protection of Capital Investments* was signed in 1989 and entered into effect in 1991. *The Agreement on Trade and Commercial Relations* was signed in 1992, *Agreement on Economic Cooperation* in 1993 and *Agreement on Evading Double Taxation* in 1995. During Putin's visit to Canada in 2000 two other intergovernmental agreements were signed: *Air Services Agreement* and *Agreement on Cooperation Between Russian Regions and Canadian Provinces and Territories*. In February 2002 during the visit of Team Canada headed by Prime Minister of Canada J. Chrétien to Russia, Canada and Russia adopted a *Joint Action Plan for an Enhanced Bilateral Partnership*.

¹ This activity is also related to the natural resource industry: McLeod Dixon, the leading Canadian law firm in the oil and gas industry, has established offices in Moscow and in Kazakhstan to help Canadian companies involved in ventures there.

The Intergovernmental Russian-Canadian Economical Commission (IEC) was founded in October 1995 in accordance with the *Agreement about Economical Cooperation* between Russia and Canada from 8 May 1993. This group consists of representatives from individual companies, industry associations and governments from both Canada and Russia, and has been actively involved in Canadian mineral investment in Russia since 1998. In June 2000 Canada signed two Memoranda of Understanding (MOUs) with the Russian Federation to promote mineral investment and geological research between the two countries. The first one was developed through the work of the Canada-Russia Mining Working Group of Canada-Russia IEC. It is concentrated on the issues of cooperation in the field of mineral exploration, development, mining and investment and is meant to facilitate activities to support investment and trade in the minerals and metals industry. The second is aimed at fostering cooperation in the geosciences. It is the result of negotiations between NRCan's Geological Survey of Canada and the Russian Ministry of Natural Resources.¹²

Still, the legal relationship between the two countries remains undeveloped. The relative lack of trade between the two countries creates little incentive for the respective governments to create far-ranging trade agreements. Any significant changes in the legal framework are more likely to result from the influence of international organizations (most notably if Russia becomes a member of the WTO) than from bilateral negotiations.

Coal and privatisation

Following *perestroika* state mining corporations began to collapse. There were negative as well as positive aspects of this process. In Magadan, the leading area in producing gold, where around 30 tons annually are being dug, the state group of enterprises have fallen apart, and over 200 commercial enterprises took their place. But soon it became clear that even the right to own the obtained metal and sell it (according to the 1999 document "On Precious Metals and Gemstones") does not guarantee economic success: buying expensive fuel, technology, parts and marketing the product in small portions is not within the capacities of small enterprises. Gradually most of them had to merge into big ones.

In the Ukraine small private companies began to appear at the beginning of the nineties, mainly in the coal mining industry. At that time the privatisation of mining corporations was not permitted in the Ukraine. That did not stop the local businessmen. One of the non-traditional ways of investing in mining extraction was to providing mines with a loan for equipment which was returned by the mine in coal.¹³

The reality of privatisation often means that all debts from non-payment of the land tenure tax stay with the old enterprise, and the new company does not assume them. As a result of privatisation the price of coal may double within one year (Novokuznetsk) because of price liberalization. What it means for the citizens is that the cost of living and of communal services is growing while the salaries do not. Another reality is the loss of employment after the mines close. Five of 13 mines in Prokopyevsk, Kuzbass closed in 1998, causing 25 per cent of the city's workforce to lose their jobs.

In December 2003 over four thousand Rostov (southern Russia) coal miners lost their jobs. They had not been paid since the spring. In Eastern Donbass, the salary debt reached 300 million roubles (US\$10 million). At just one mine that has just been closed - where 700 people worked - the debt totals 26 million roubles. This problem of unpaid workers toiling in nineteenth century conditions has persisted since Mikhail Gorbachev was in power. The Russian government appears to act (usually in the form of one-time payoffs to clear up debts owed to workers) only when the miners take drastic action such as striking. Long-term solutions including the closure of non-profitable mines accompanied with a plan to relocate and retrain displaced workers have not been seriously considered.

The average salary in the RF is approximately \$200 (December 2003) a month, US\$400 in Moscow. Employees working in the oil producing industry average US\$660, oil processing and colour metal industry – US\$400. Agricultural workers make on average US\$83 monthly. Over 80% of the unemployed are women.

The positive effect of privatisation is that new investors are attracted to the sector allowing the company to upgrade their technology and to pay salaries on time for the time the mine is profitable. This has drawn many people from state mines where salaries sometimes weren't paid for months.

The situation in the mining industry in the Ukraine is much worse than in Russia. Having lost government subsidies after the fall of the Soviet Union, many Ukrainian mines began to close after 1996. When the mines closed, employees received no financial support and the mines were not shut down properly. Lack of funds and responsibility aggravated social and ecological problems.

The coal industry is a key component of the Ukrainian state. The Ukraine contributes 81% of exports from the Russian Federation to the near foreign countries.¹⁴ At the same time, during all the years of privatisation in the Ukraine (data from April 2002) only one mine was offered and sold (June of 2000).¹⁵ The Foundation of the State Property (Fond Gosimuschestva) considers most enterprises of coal industry (over 150 mines) to be unprofitable. Therefore the priority during their privatisation is not to make a profit while selling them, but to minimize the costs during their maintenance and closure.¹⁶ In 2002 with an estimate of 2 billion griven² to be spent on a mine's closure, there was only 850 million griven available in the budget. Simultaneously with the slowing down of mine operation, plunder of material goods by (former) employees takes place.¹⁷

A steady supply of energy is the most acute problem in the Ukraine;¹⁸ thermoelectric power stations paid only 37% of their total debt in 2000. Since mines require enormous energy inputs, this affects them. The lack of energy also makes it difficult for the Ukraine to reject coal power as an energy source. This despite the pollution problems caused by coal and the horrible working conditions in coal mines.

These mines are also encumbered by huge debts and high transportation costs. At the same time accumulated technical retardation slows down the country's development. To obtain a million tons of coal in the Ukraine it is necessary to employ six thousand miners, which is five times higher than in Russia¹⁹ and about a hundred times higher than in Canada.²⁰

Coal miners for years have been receiving only 15-30% from the cost of produced coal. No other branch of the national economy owed its workers nearly as much as it owes to miners. During the Soviet times miners were the "guard of labour", it was the most prestigious and highly paid profession. Now miners take only 19th place in the Ukraine in the salary level²¹ and people have started to associate miners with troubles and strikes. If oil and gas workers can be said to be the main beneficiaries of economic growth in Russia, coal miners can be said to be the forgotten victims of a backward and impoverished industry.

In addition to problems of low pay, safety issues in Ukrainian coal mines have been highlighted by numerous accidents featuring massive casualties. Closing unsafe and dirty coal mines would seem to be inevitable, but there is not a realistic plan for dealing with the problems that would follow – most notably the displacement of workers, particularly in towns which are entirely dependent on the coal industry.

² The Ukrainian national currency, worth about 5.5 griven to 1 US dollar.

Despite these problems, according to the Prime-Minister of the Ukraine Anatoli Kinakh, the development in the Ukraine has shown a steady social-economic growth: real gross domestic product rose by 9 per cent in 2001; industrial production has grown in comparison with 2000 by 14 per cent; the level of unemployment has dropped; pensions have grown by 46,4% in 2001 during one year and finally the salary debt to employees was cleared off.²²

While this growth looks impressive on paper, the long-term future of the coal mining industry in both Russia and Ukraine is uncertain. Coal is not as profitable as oil, and many of the mines will likely have to close. For the sake of the miners it is to be hoped that governments will invest some of the wealth acquired from economic growth into a plan to make sure that the burden of closing coal mines is not borne solely by the workers and their families.

Investment climate

Canadian mineral investors are active in over 100 countries. They have interests in more than 8300 mineral projects. Yet there are many reasons – real and imaginary – that prevent investment in the Russian economy. According to an observation of Mamadou Barry, the guarantee officer from the Multilateral Investment Guarantee Agency, the main reason lies in the “perceptions” investors have about Russia. But perceptions are not less important than reality and they are more difficult to change, believes Mr. Barry. “People, when they think about Russia, think about high costs of operation, about ... cumbersome bureaucratic procedures, a complex and onerous tax system, (poor legal - A.P.) enforcement of contracts, strong pressure to curtail incentives given to foreign investors ... organized crime and corruption ... They think of Russia as a country of high risk.”²³ He also mentions such fears of foreign investors as lack of enforcement on expropriation laws and property rights laws, distrust of foreign investment and a heightened risk of terrorism and sabotage. The fact that Russia is not a WTO member also stops foreign investors. The document “Concerns About Investment in Russia” prepared by National Resources Canada and Foreign Affairs (1999) for investors in Russia mention bureaucratic delays, high tax burdens (there are as many as 180 federal and local taxes and lack of certainty as to which ones will apply), unorthodox business practices, market interference, lack of security of tenure of mineral rights, and “a host of other problems”.²⁴

The cautiousness of investors is fed by the Canadian mass media on the one hand, where negative experience of foreign companies in Russia is exaggerated to create a sensation, and by the Russian mass-media on the other hand. The latter tends to the “great Russian chauvinist” idea about the negative effects of foreign investment.²⁵

Russia has made significant progress in its legislative procedures since 1996, when the problems facing foreign investors included:

- Lack of a legislative procedure for concessions related to the use of the subsoil.
- Absence of risk guarantees to western companies hindered their ability to get a return on investments.
- The impossibility of issuing licenses for a group of legal entities, or issuing licenses to consortia.
- A limit of twenty years for use of the subsoil.
- A lack of legislation that would streamline the negotiating process for Production Sharing Agreements.

All of these problems were resolved in the interests of the mining industry, with varying degrees of success. Now:

- There are transfers of title for rights to the use of the mineral rights

- There are guarantees, according to Russian legislation, to receive rights to deposits as a return on investment for projects involving risk.
- Ability to deal with consortia; holding companies were issued licenses according to the laws.
- The terms of use of the mineral rights have been extended until the deposit is exhausted. There are no limitations to the extension.
- Most of the legislation has been put in place that allows discussion about a civilized approach to Production sharing Agreement in today's Russia.²⁶

Canadian investors continue to push for more changes in order to feel safe to invest. "We need a legal system that is fair and transparent", - says Jeff Handley, senior vice-president of exploration and corporate development of Placer Dome (2002). Both the condition of the legislative system and realisation of laws (that means if the law are actually followed through) worries Marco Sodi from the American investment company VeronisSuhler.²⁷ According to him, the level of keeping promises is rather low in Russia. His other concerns are "the immature business environment" and "primitive mass media"²⁸. Finally the cumbersome tax system has helped create a shadow economy. Among the attractive features, Mr. Sodi cites the high level of education of Russian citizens.

However, what attracts investors despite these problems is the possibility of extraordinarily high profits. Alexander Ivlev, partner of the company Ernst and Young (May 2002) says that "100% returns on capital are achievable, whereas in the States 15-20% is considered excellent."²⁹

Canadian Mining Companies in the Russian Federation

The "Kubaka" Deposit – Kinross Gold

This has been the largest single gold producer in eastern Russia, owned by Kinross Corporation. Kubaka was acquired by Omolon Gold Mining Company in the early 1990s. Omolon was formed as a merger of Cyprus Amax from the U.S. and a group of Magadan-based shareholders. The mine was opened in 1996. In the summer of 1998 Kinross and Amax merged with Kinross as the continuing operating company.³⁰ Until March 26,2003, Kinross owned 54.7% of the mine. The other portion belonged to the Russian Geometal Plus company (24.9%) and to a few other Russian companies, including 6.6% belonging to the local Association of Siberian Peoples Minority. In 2002 after some time of negotiations and a series of lawsuits, Kinross bought out all but one of the other partners and increased its share ownership to 98.1%.

The mine has been doing very well. The annual report by the company shows that its profit tripled from the year 2001 although its revenue is about the same. The total production cost of gold per ounce has dropped 15% since 2000 and the price of gold has risen to the \$400/oz. range. A 5% customs duty on gold export introduced in 1999 was removed in 2002, which helped increase the profit.

Since October 2002, the open pit has been closed , and the company is relying on the processing of low grade ore from its stockpiles and production from three small underground mines.

The Magadan region receives half of its annual gross profit from Kubaka, which in turn has the lowest cost of production per ounce - \$133 (2002), compared to \$183-243 in its other foreign firms and the average gold grade of 11 g/t (which is five to ten times higher than on the company's other deposits).³¹ Now Russians are "biting their elbows" that there was no Russian company or bank 7 years back able to buy Kubaka.³² At Kubaka today, the mine's 230 workers live in modern housing with recreation facilities. Only one accident took place in 2002.³³

John Ivany, Executive Vice President of Kinross, shared his experience during the *Seminar on Investment in the Russian Mining Sector*, which took place in Toronto in March 2000: “The ore is a fine ore body with high grades ... and the work in delineating that ore body was first-class and beyond reproach. We have a high calibre work force at Kubaka, with a level of education by far exceeding the level of education in any of the work forces at any of our operations around the world... In spite of what you hear about the myriad of bureaucracy, conflicting laws and almost pedantic application of those regulations and laws, in those few instances where we have had to obtain permits and then licenses or do similar things to keep the operation going smoothly and accommodate operational changes, our experience has been that we have actually been able to ...achieve those permits quicker than we could in a North American context... We have never been extorted, nor asked for a bribe. We have never had a dispute or an attempt to steal our license, and we have been fortunate that our partners have been reputable and good people to deal with”.³⁴

The mine received \$100 million in political risk insurance and financing from the US government’s Overseas Private Investment Corporation (OPIC) and the European Bank for Reconstruction and Development (EBRD), and as a result had to meet World Bank standards for environmental assessment when it was submitted in 1993.

However, according to a detailed report on environmental issues at the Kubaka Gold mine by Pacific Environment (“A Model Mine Shows Its Cracks” by Julie Edlund and David Gordon (1998)), the mine was facing serious environmental problems such as the management of excess water and severe underestimation of annual precipitation; seepage through the water retention dam at the tailings facility; cyanide in seepage below the old Burkot tailings impoundment and some others. The company had also not presented a publicly available reclamation plan or the kind of financial guarantees that should have been made prior to start-up. Some members of ecological groups have also pointed out difficulties faced while trying to access the Kubaka mine for the collecting of environmental information.³⁵ The company denies these accusations, and issues a report every six months extolling the environmental and social responsibility of the mine (see www.kinross.com).

The “Dukat” Deposit

In 1996, the state-owned corporation in charge of the world’s third largest silver ore mining and processing enterprise ran out of money, and the mine, mill and smelter came to a stop. Thousands of people in the area were dependant on working in the mine. In 1997, the Dukat enterprise was declared bankrupt and the mine was privatised through an auction. The mining licence was won by ZAO Serebro Dukat. 70% of Serebro Dukat’s shares are owned by Canada’s Pan American Silver, and 30% by Geometall - a Russian company majority owned by Western Pinnacle Mining Limited (a Canadian junior mining company).³⁶ The licence carried restrictions setting strict amounts for partial investments and time limitations to begin the mining.

However, at the auction, the assets and property were acquired by a group of Russian companies called “Kaskol”. In early 2000, Kaskol and its partner, Polimetall, demanded that the mining licence held by Serebro be cancelled, and the properties handed over to Kaskol. The representatives of Kaskol put pressure on the minister of the Natural Resources to deprive the Canadians of the licence.

The former governor of Magadan, Valentin Tsvetkov, joined the battle and criticized the Canadian side. On June 1, 2000, he sent a letter to the company president stating that Serebro-Dukat had been too slow starting the exploitation of the mine and asking him to present a clear investment program and start building a new mill. The Canadian side promised to offer an action plan in person on June the 15th, but did not arrive in Magadan, after which the governor concluded that Pan American Silver was not going to deliver on their promises. At this point, Tsvetkov’s administration initiated a process of

recalling of the exploitation licence from Serebro-Dukat.³⁷ However the licence agreement had given Serebro-Dukat until the fourth quarter of 2001 to start extraction and they were not yet in violation of the agreement. The licence could not be withdrawn.³⁸

In the meantime, Pan-American Silver had arranged \$66 million in project loans and cost over-run loans from a syndicate of international banks, a commitment from the IFC to make two equity investments one of \$4.5 million and one of \$9 million for a 15% stake in the company. IFC was also willing to make a private placement in the company, but as a result of the dispute with Kaskol the loan facility was never drawn down.³⁹ The St. Petersburg Times also reported that Canada's Export development corporation also provided financing, but we have been unable to confirm this.⁴⁰

In September 2000, Pan American reached an agreement with Kaskol (Polimetall) resolving the outstanding legal issues. Under the settlement agreement, Pan American and Kaskol agreed to form a new Russian company, Serrebro Magadan, to hold the mining licence and the assets of the company. Under an agreement signed March 2001, Pan American now holds a 20% interest in Serebro Magadana, and Kaskol holds 80%. Pan American has no future management or financial obligations for the mine, and in the third quarter of 2000, they wrote off \$37, 208, 000.⁴¹

The Dukat silver mine started production in 2002.

Pan American President Ross Beaty said that in 1999 Russia had been declared the worst country in the world for foreign mining investment in an independent survey of forty-five of the world's biggest mining companies. "I had hoped, – he added – that Dukat would be a direct challenge to that opinion and that we would be able to say ... "That is wrong, that is a bad perception. What we have done in Russia is to overcome this problem, and this problem, and this problem, with the support of the Russian government and many people in the Russian economy".⁴²

Barrick Gold Corporation

Operationally, the company is the world's second-largest producer of gold and has the lowest costs of any industry major. Barrick first came to Russia in 1995 and has been increasing its presence ever since. During its first five years in Russia, the company spent US\$10 million on exploration. In comparison with some other developing countries where the company operates, in Russia it is also attracted by additional factors, such as a well-developed infrastructure, a well-educated and experienced workforce and experienced local construction and engineering firms in the mining industry. In 1998 the company won the tender for exploration and exploitation rights to the Ayakhta property in Krasnoyarsk region, and also received a license to evaluate Sukhoi Log in Irkutsk region. Major current activities include an exploration program on the Kola peninsula and in Kyrgyzstan republic.

In January of this year, Barrick became 17% owner of Russian gold miner Highland Gold, with an option on future discoveries. With Highland they are reported to be discussing a joint venture at the Maiskoye Mine in the Chutkoye Region. Gregory Wilkins, Barrick's president, says: "This transaction represents a strategic investment opportunity for Barrick Gold... We are making this investment due to the markedly improved investment climate in Russia and an abundance of quality gold targets in this region."⁴³

Reuters reports that Highland Gold (with Barrick) is also likely to bid on the rights to develop the Sukhoi Log deposit in the Irkutsk region. The tenders have been postponed because of agitation over allowing foreign firms to bid on it. "The government, which has for years debated tender terms with regional heads in a process marked by bureaucratic hurdles, has yet to decide whether to allow foreign companies to bid... Earlier this month, however, regional bosses in Russia's upper chamber of

parliament put forward a letter demanding the government bar Western mining companies from bidding -- in a move that raised concerns among Western firms.”⁴⁴

High River Gold

The company has been in Russia since 1995. With the help of the European Bank for Reconstruction and Development (EBRD), High River has increased its interest in the Russian Siberian company Buryatzoloto to 53.5 percent (2001).

A press release from EBRD December 19, 1996 stated: “Two gold mines in the Republic of Buryatia (eastern Siberia, Russia) are to be upgraded and expanded with a US\$ 17.5 million (ECU 13.5 million) finance package which the European Bank for Reconstruction and Development (EBRD) is extending to the mine owner and operator, AO Buryatzoloto, a recently privatised Russian company... Ron Freeman, First Vice President of the EBRD, said: “The EBRD’s investment will enable Buryatzoloto to strengthen its corporate and technical structure as well as implement important environmental improvements. In doing so, it will be able to position itself alongside other Western-style private sector mining companies and help arrest the decline in Russia’s gold production.”⁴⁵

Buryatzoloto, the third largest producer of gold in Russia, is over 10 years old. It says it operates according to international mining standards.⁴⁶ According to Don Whalen, Chairman of the company, their experience has been extremely positive. They have an excellent partner, Buryatzoloto, which is skilled in mining. According to the chairman, this partnership has resulted in a tripling of production and in dramatic cost reductions. High River plans to expand their current project and to acquire new ones.⁴⁷ High River has two people in the Council of Directors of Buryatzoloto and Buryatzoloto has two members in the Council of Directors of High River. The European Bank has only two representatives in the Council of Buryatzoloto.⁴⁸

The Julietta Mine – Bema Gold

In 2002, Canadian medium-sized miner opened the Julietta Mine in Magadan. An underground gold mine with a 4.5 year mine life, the mine produces gold at less than \$119/oz. The mine is 79% owned by BEMA through a subsidiary. On September 14, 2000, the IFC approved a project loan facility of \$10 million for the mine.

The company is also conducting advanced exploration for silver and gold in the Kupol area of Chukotka. The agreement for a 75% share of Canadian mine ownership in this joint venture was signed with the region’s administration in December 2002. It is estimated that it will extract around 15 tons of gold and 150 tons of silver a year.⁴⁹ The Canadian side will pay \$35 million into the region within three years. The mine contains around 30 tons of gold and 300 tons of silver (which is around \$300 million).

Health and safety issues for Russian mining communities

Russian and Ukrainian mines are among the most dangerous in the world. On average, 300 to 400 miners die in accidents in the Ukraine each year. There were eleven deaths in November last year at just one northern Russian enterprise - “Nornikel”. This is the price paid for poor working conditions, irresponsibility of the management, outdated technology and negligence in usage of protective devices.⁵⁰

Russia also lacks money to upgrade equipment to reduce injuries and improve productivity. Russian authorities estimate that the gold mining industry alone would require more than US\$5 billion over the next four years to build or upgrade about 30 mining and milling complexes.⁵¹

Novokuznetsk, the largest city and the industrial centre of Kusbass (a coal industry area of Russia), produces up to 70% of the district's income. During the years following Perestroika the population of the region declined from 618 thousand (1991) to 550 thousand (2002). Unfavourable demographic indices are worsened by health issues: cases of HIV/AIDS have skyrocketed in Russia and the Ukraine. About 90 per cent of the 700,000 people estimated to have HIV/AIDS in the former Soviet Union at the end of 2000 were in these two countries;⁵² the indices for tuberculosis and infectious hepatitis are growing as well. In the last decade the level of infant illness grew by four times (410 cases for 1000). The average child mortality rate is 19 deaths per 1,000 in 1999.⁵³

Special concerns in the Russian North

The North is the region where the Stalin's concentration camps were located. At that time, the gold industry of the region thrived because of the slave labour of millions of political prisoners. The totalitarian economy and the camp industry determined the government subsidy to the region and commodity prices. Ninety per cent of the total production in the region was from the mining industry. In the old days Chukotka produced 40 tons of gold annually. Now the expectation is 14 tons, and the industry has become uneconomic.

Transition is always hard. When Russia moved to the market economy, it was harder for some areas than others. Moscow, St. Petersburg and Kiev benefited from the change. However, some regions that are the richest in natural resources, like the northern area of Russia, still do not benefit from into the market economy.

Russia holds the world's largest gas reserves (one third of the world's total), the second-largest coal reserves, and the eighth-largest oil reserves. Over eighty per cent of these reserves are concentrated in the north. Some 12 million people inhabit the Russian north, of which about 200,000 are indigenous peoples. Russia's north is 50 times more densely populated than Canada's.⁵⁴ This is the direct result of Soviet-era policies. The Soviet government was determined to populate the north, even where it made little economic sense.

However this has all changed. In the 1990s⁵⁵ almost half of the population of Chukotka - generally the most qualified and entrepreneurial people- left the region. Magadan region has lost one third of its population since 1989. Many of those that stay are unable to leave due to age or poverty. In Chukotka, the mining owners are now bankrupt. Deer-raising, production of meat, eggs and fish is either abandoned or reduced; the health system is in a miserable state- there is no X-ray apparatus in the hospitals; and schools are lacking text-books. The delivery of food, energy and supplies to the North is unpredictable. Diseases, alcoholism and poaching characterize the region. Life expectancy is 50 now - the average Russian lives to 65.5 - due to the pollution, nutrition, diseases and alcoholism. Chukotka now has the least favourable investment climate of all Russian regions.⁵⁵

Yet, the Russian north is far from collapse. The Far North currently produces about 60% of Russia's total mineral output and accounts for 92% of Russia's gas reserves, 75% of its oil, 60% of its coal, 50% of its forests and fish stocks.⁵⁶ As a recent proof of this, Bema Gold Corporation is exploring in the silver-gold deposit Kupol in Chukotka. Another new investor in the area is Russia's own Norilsk Nickel.⁵⁷ In Eastern Siberia and the Russian Far East, there are at least five deposits with estimated reserves of over 300 tons, as well as a number of 100-300 ton deposits.⁵⁸

The World Bank is currently supporting a project called *Russia's Northern Restructuring* to relocate up to 600,000 people from remote parts of Siberia and the Arctic from mining towns and other

villages where the economies have collapsed since the end of communism. Inhabitants will be resettled near urban centres where they could find work and cheap accommodation...

Andrei Markov, the coordinator of a World Bank project, said: “The idea came in 1998 when the Russian government approached the World Bank for support... We decided to run a pilot project in the coal-mining town of Vorkuta, the nickel town of Norilsk and the gold-rich Susuman district of Magadan... Norilsk, which began as a gulag, is believed to be Russia’s most polluted town. Life expectancy is 10 years below the average for Russia. The air is thick with sulphur which turns the snow yellow... In the Soviet times these places were heavily subsidised by the state as they were very interested in developing the areas at all costs to generate natural resources. After the economic reform [of the 1990s], the subsidies are unaffordable.” The subsidised industries have been sold to the private sector, which, Mr. Markov said, was “downsizing and restructuring,” leading to cuts in jobs.”⁵⁹

Evidently, the plan has not been met by enthusiasm by the populations of these towns who want to choose when and to where they move if at all.

The Indigenous Peoples of Siberia

The conquest of the North by Russians that began in the XVI century, created few direct military losses for the indigenous peoples, in fact they often opted to join Russia for defence against other enemies. However, the harm caused by diseases to which they had no immunity was devastating,

The book, “A Recollection of a Civil Rights Leader: Elizabeth Peratrovich”⁶⁰ states that during the period of Russian rule many Alaskan indigenous tribes were not even aware of the Russian presence, because Russia enforced their laws only within their forts. Those that came in direct contact with the Russians could usually read and write two or more languages and were considered ‘civilized citizens’ by Russia. The Russian colony relied heavily on the knowledge, talents and expertise of the indigenous peoples. Indigenous people often held responsible positions in trade operations.

The missionary activities of the Orthodox Church were mainly a formality and even after baptism, indigenous peoples usually continued their traditional practices. Unlike Catholic or Protestant missionary practices, Orthodox priests were expected to protect the interests of the indigenous peoples and defend them from the government.

As an example, in Alaska, after the Russo-America treaty of 1867, the indigenous peoples suffered mistreatment from Presbyterian missionaries and US government officials. A number of petitions asking to respect the rights and privileges they held before the transfer of Alaska to the US were sent to the US president, but went unheeded.

After the Bolshevik Revolution of 1917 things started to change. The new Soviet government introduced an indigenous policy similar to that of Canada and the USA. The purpose of this policy was to erase traditional livelihoods, such as subsistence hunting, thereby creating a dependency on government-provided work and supports. Forced collectivisation, resettlement and boarding schools led to results similar to Canada’s: annexation and exploitation of the indigenous peoples’ lands, the breaking of their customs, traditions, language, religion, way of life and world outlook; uncontrolled growth of unemployment and impoverishment, life threatening levels of crime, alcoholism and diseases. In return, the indigenous peoples received “tax cancellation, privileged supplies and literacy”.⁶¹ They were forced to “live the full-blooded life of equal peoples of the Soviet country”.⁶²

The construction of the GULAG system, the surging Russian population in the North, and nuclear testing forever changed the demographic picture of the area. The current situation in Siberia and

the Far East is deplorable. Reindeer herds have decreased by over 900,000 since 1990, and biologists now says that the breeding nucleus of the herd has been destroyed.⁶³ Unemployment among Russia's northern peoples has risen to between 45 and 100 per cent. The state of health is deteriorating as well. The rate of tuberculosis is three to four times higher among northern indigenous peoples than in the rest of Russia. Their rate of alcoholism is 12 to 14 times higher, as there is no control on the sale of alcohol.⁶⁴ Their life expectancy is lower than that of the non-indigenous population.

In the last century alone, Russia has lost such nationalities as the Ain, Vod, Kamasinets, Kerek, Omok, and Yug. The Aleut, Ket, Iganasan, Negidalets, Orok, Oroch, Tofalar, Enets, Yukagir nationalities are also on the verge of extinction.⁶⁵ *The Statement Concerning Discrimination Against Indigenous Peoples of the North in the Russian Federation* of 1995 further outlines the abuse of the political rights of indigenous people: in the 1989-1991 period 18 indigenous representatives were seated in the Supreme Soviet (Parliament) of the USSR and RSFSR. In 1995 only two deputies were elected to the Federal Assembly (Parliament) of Russia. The document reads: "...our native lands are being annexed and barbarically destroyed by rapacious petroleum and natural gas, coal, gold and non-ferrous mining interests without any form of just compensation directly to organizations and indigenous enterprises of the north and this phenomena is depriving us of our lands and rights to part of the resource wealth, deprives us of our basic right - a right to life..."⁶⁶

Appalling as it is, the process may not be completely irreversible. At this time, some regional administrations have begun to organize so called "regional goal programmes", and there is hope that they may ring about change. (Culture of Chukotka until 2005, Development of Agro-Industrial Complexes until 2005).⁶⁷

Ecological situation

The present law governing subsurface resources contains ten articles establishing environmental requirements for the rational use of mineral resources. However, they are general in character and need detailed elaboration. There are requirements regarding the closure of mining workings, the location of mining waste, the reclamation security procedure the introduction of the scheme of insurance against risks of damaging mineral resources and the natural environment. However, the general character of the legislation, sloppiness and/or complete lack of law enforcement mean that the law has no teeth, and environmental destruction continues.

Areas of pollution around industrial projects in the tundra exceed the licensed areas by hundreds of times. In the Yamalo-Nenetskiy district alone, over 6 million hectares of reindeer moss have been destroyed. In the North, oil is often produced using environmentally primitive methods, leaving millions of tons of high-quality steel tubes in the earth to rot, and causing terrible pollution after the rusty tubes begin to leak.⁶⁸

President Vladimir *Putin's Decree no. 867, May 2000*, abolished the State Committee for Environmental Protection and transferred its functions to the Ministry of Natural Resources, which is responsible for the exploitation of minerals. In 2004, there are 100 reserves, 35 national parks and over 5000 protected territories on the territory of the Russian Federation- 1.5 percent of the total territory of the country - but the areas are threatened by the Decree. For example, all approved plans for new protected areas in Murmansk region were frozen, even though the money for the realization of the protected areas had already been allocated by the Finnish Government. The proposal would have created several national parks and sanctuaries with a total area of 760, 000 hectares, including famous territories with unique biodiversity, amazingly beautiful landscapes and large tracts of the virgin old-growth forests.⁶⁹ Since 2000 there has not been a single reserve or a national park created in Russia, even though 7 parks had been planned for 2003.⁷⁰

A September 2003 the decision of the Russian government transferred part of Sochi national park to a local reserve, enabling 11 thousand hectares of the park zone to be used as hunting grounds for government⁷¹ employees. Greenpeace lodged a complaint against this illegal order, since no government ecological expertise was consulted at the time the decision was made.⁷²

In November 2003 the State Duma made corrections to the Forestry Code, legalising cottage construction in the precious woods forming the green zones of cities, towns and areas of waterway protection.⁷³

The second major *Putin's law (12.07.2001)* permitted nuclear waste import to Russia. Dangerous to people's safety and health, this law is in line with the president's policy of economic profitability.

All this hardly makes Putin popular among the environmentalists. The general public may however have a different opinion. In an interview on December 14, 2000 with the *Globe and Mail*, the President said that after his time in Kremlin he may "choose a peaceful and humane career as an ecological activist". In another interview to Radio Freedom (15.12.2000), when asked about the arrests and trials of environmentalists in Russia, Putin stated that "there are quite a lot of detentions of ecological movement activists not only in Russia, but also in other countries."

Some examples of the treatment of environmental concerns in the former Soviet Union:

Protected areas - Kamchatka:

Located in the centre of the Kamchatka peninsula, the 1,325,000 ha. (13,250 km²) Bystrinsky Nature Park is an UNESCO world heritage site. 30 Native communities, about 1000 people, live in the park leading a traditional way of life. However, several deposits of gold have been located in southern part of the Park and the Russian Ministry of Natural Resources now wants to move the borders of the park 50 km to the north. The Canadian Kinross Gold Corporation has admitted its interest in the project, although they have not officially requested it. The government claims that the construction of the mine will improve the ecological situation by creating jobs for those unemployed who now make their living by poaching in the park. The plans for moving the park's borders are even supported by the Russian Committee for the Protection of the Environment. This is no surprise, since by President Putin's order of May 2000 described above, the Committee is now subordinate to the Ministry of the Natural Resources. One ecologist says "this is equivalent to letting industrial foxes watch over the ecological henhouse".⁷⁴

CIDA, the Canadian International Development Agency, previously allocated \$3 million for the development of Bystrinsky Park together with three other parks.⁷⁵

Northern Kazakhstan and uranium mining:

Uranium has been mined in the Kazakhstan Republic since 1944. In 1992 Kazakhstan was the third leading producer after Canada and Nigeria. The fact that the uranium mining industry could be dangerous to people's health was kept secret. Even the word 'uranium' itself was little known.⁷⁶ Since the collapse of the USSR, strategic stocks of nuclear armaments have been reduced and state subsidies to the industry have been discontinued. Many uranium enterprises have gone bankrupt. Kazakhstan inherited mountains of radioactive ore, contaminated enterprises and equipment. The total area directly affected by the uranium mining industry is 10,000 hectares, on which 170 million cubic metres of radioactive waste is concentrated. A programme aimed at neutralizing of the area plans to eliminate the effects of uranium mining by the year 2010.⁷⁷

At the same time, Minatom, the government agency responsible for nuclear power production, is planning to double uranium production to 5-6 thousand tons annually by 2020.⁷⁸

Kyrgystan and abandoned mines:

A leading official of the Scientific Institution, Geopribor, says you can assess the ecological situation in the republic according to the following criteria: crisis, unfavourable and catastrophic.⁷⁹ Over a long period of time a very small territory in region surrounding the town of Mailu-Cuu has been heavily impacted by the extraction of uranium, coal, and oil - and now of underground waters and gas. Now 50% of the town is threatened by subsidence and creeping tailings piles.

The worst threat is the creeping tailing dumps of radioactive elements, containing uranium, radium, and thorium. These projects were all created during the birth of the atomic industry, when there were no engineering decisions about storage and burial of nuclear waste. Radionuclides have seeped into the ground and surface waters, which are used for drinking water supply and for sprinkling. Even the areas where reclamation took place in the 1970s are leaking. Decades of neglect and wind and rain have led to erosion and washouts of the protective cap on the tailings. (The protective cap is only one metre thick in Kyrgyzstan, as compared to 5 metres in the USA).

Simultaneously with the creeping tailings, there is a problem with flooding mine shafts. Abandoned mines have filled with water become a massive reservoir threatening to flood low-laying territories nearby. People have had to leave their settlements on many occasions in the past.⁸⁰

In spite of these threats, the local population understands little about ecological problems. At most, villagers complain about losing teeth. Some of them have been using abandoned nuclear materials like tubes, cables, and ground from the tailings field as building materials. The radiation of some town buildings is approximately 600 microrentgen/hour, when the norm is supposed to be 20. At the same time, when they dig out these materials, they open the protection layer of the tailing dumps. An anecdotal story tells about a former militia employee who planted potatoes and corn on a tailing dump.⁸¹

This problem is not unique to Kyrgyzstan. In the Stavropol region of the Caucasus, a uranium mine was closed in 1985 and the reclamation was done in accordance with the reclamation norms prevailing at that time. Access to it is closed and galleries have been immured. Yet, the local people dig entrances looking for non-ferrous metals, cut iron doors with an autogen and even drag cables manually; and pick mushrooms in the nearby forest where they risk falling in to the mine as the layer of earth is very thin over the mine. Radioactivity in this area is known to be many times higher than the norm.⁸²

Storage of nuclear waste in abandoned mines

Russia complains that it does not have the resources to clean up its nuclear garbage. The sums of money allotted by the Clinton administration specifically for this purpose, an agreement on Chemical Weapons Destruction signed in 2002 with Canada (Can\$100 million a year over the next ten years as part of the US\$20 billion NATO project) and Norwegian and Finish financial and social help are not enough. There are reports about using abandoned mines to dump nuclear waste.

The Socio-Ecological Union in the Ukraine reports: "In 1999 local people of Donetsk region observed military trucks with Kiev license plates that unloaded large wooden containers without markings into the salt-mines. An ecological inspection with a dosimeter to check the objects was refused. A year later, after a series of public protests, or unrelated to them, the army announced that it had found the means to deactivate the nuclear residue."⁸³

Bahmat EcoCentre reports: “Not only do the military people blow up an ammunition depot next to the windows of town citizens and knock down civilian planes, but they also leave nuclear dumps wherever they please. The director of the centre Vladimir Berezin writes:

“Directly next to our town (Artemovsk, Ukraine - AP.) lie underground mines of the “Artemsol” production unit. This huge salt manufacture is being rented by the Army. Local people constantly report to us that at night-time large trucks approach the mines and are disloaded. The boxes, including those marked “radioactive”, are put in the mines. At our inquiry, the military people told us that only old shooting weapons are kept in the underground military depots. As to the boxes with the signs “Radioactive” this fact did take place, but those were parts for the Moscow Institute of the Nuclear Physics, which also rents a part of the salt productions”.⁸⁴

EcoInform reports: “The region Ivanov (around 250 km from Moscow) may be described as an ecological disaster zone. A rocket factory is only a kilometre from a town, Mirslavl, where some years after the liquidation of the rocket plant, in 1996 the army people surrounded by armed guards, buried sacks with unknown contents in the mine. The official version was - the buried sacks were filled with old Soviet money. But the locals did not take this explanation seriously. In 2002 the mine collapsed and the contents of the concrete well surfaced. The red foam and bubbles looked like a chemical reaction. The laboratory of the Federal Service of Security said that the water from the mine is safe to drink. Another laboratory in the sanitary-epidemiological station found the water toxic. The analysis showed around 10 poisons of organic nature (proportions are not specified - AP). In recent years children in Mirslavl suffer more and more from chronic diseases. The eye-sight diminishes. Every third citizen dies from cancer. Yet, the doctors do not dare to link the statistics of oncological diseases with the Mirslavl rocket mine.”⁸⁵

Nuclear waste is being dumped almost anywhere. Tragically known is the town of Musljumovo in the South Urals where even 50 years after cessation of nuclear dumping into the local river, the levels of radiation are worse than in the most polluted regions of the area suffered from the Chernobyl accident.⁸⁶ The Atomic Ministry plans a program to discontinue nuclear dumping in closed lakes by 2010,⁸⁷ but the main problem is far from being resolved.

Civil Society groups active in Russia

In 2001, there are approximately 600 environmental groups in Russia. This figure is very unstable and inaccurate, as some organisations may be coalitions, or they may be part of other organisations. Some organisations consist only of a few members of a village trying to defend their spot of green land or a local river. It is therefore more logical to look at the main types of NGOs rather than enumerate them⁸⁸:

Professional activists: Ostankino TV channel, NTV TV channel (until it was closed by Putin for its negative view of the government activities), Greenpeace, which in Russia collects and spreads information, and takes part in legal processes and World Wildlife Fund, which has been more successful in maintaining the Siberian tiger population than the many-thousand staff laid off from the nature protection services, and International Union for the Conservation of Nature (IUCN). There are also some minor agencies like the Ecouris law institute, and “Dront”-Centre for Protection of Wildlife.

Volunteer activists: Twenty years ago there were student teams initiated by young people themselves. On this foundation, a Social-Ecological Union emerged, a loose coalition of green groups of the RF and the countries of the former USSR.

There is now an abundance of green groups dictated not only by the catastrophic condition of the environment, but also by the absence of an independent nature-protective department in the administration of the Russian Federation (see above Putin's Decree of May 2000).

The restoration of such a government department was the main slogan at the last *Third All-Russian Congress for the Protection of Nature* (February 2003). Unfortunately, members of Greenpeace and Baikal Wave were removed from the event for "inappropriate behaviour"; some other important political figures did not show up in protest of the administration's dishonest practices of resolution writing; Mr. Putin and his colleagues ignored the Congress altogether.⁸⁹ The participants prepared a letter of appeal to the government, in which they expressed their concerns about the deterioration of the legislative base and of the system of state management since the last Congress four years before. They also urged the Federal Committee to speed up the proclamation of a law about the payment of fines for the ecological harm by businesses. But the appeal was not voted upon.⁹⁰

In the nineties a number of social monitoring groups were formed as a response to the socio-economic crisis. These organised social-environmental monitoring centres are in their initial formation stage. In the period of 1995-98, high politisation of the population, in combination with lack of reliable information and often inadequate reporting of the situation by the mass media, contributed to miners' revolts.⁹¹ The activity of Rosugleprof (Russian Coal Mining Industry Union) is more successful than that of the ecological groups and more able to influence the legislation. Its main goal is to protect miners' interests in the face of mine liquidations, the need for jobs, and in raising the level of their skills, and creating financial protection for miners.⁹²

All social pressure groups in Russia are faced with overwhelming problems in terms of an ill-informed population and a media that does little to publicize environmental and safety problems. Russia has a century old attitude of putting industrial growth above all else. While awareness of environmental problems has increased in the post-*perestroika* years, most Russians are too concerned with day-to-day survival to worry much about protecting their natural environment.

On the other hand, as part of the ecological monitoring project, 80 000 water samples for environment evaluation are being taken annually and they are finding that even though one half of the water from the central water supply does not correspond to sanitary norms, the other half does. Also, according to the Minister of the Natural Resources, V. Artiuhov, over 65 percent of the territory of the RF is not affected by man's impact, and are undisturbed ecosystems.⁹³

The future of the mining industry in Russia

It is not easy to predict the future of an industry even though some hints are provided by the present economical, political and social conditions. In 1998 no one could predict that even a few years later, the Russian economy would stabilize and foreign investments would flow in. Putin's approach to economic development is supportive of mining exploration and development, but does not leave much hope for the growth of independent thought in regard to ecological questions. There are few signs that Russia's leaders have learned one of the important lessons of the Soviet past – that unchecked exploitation of natural resources has devastating consequences on the environment. The future of the mining industry in Russia depends on the ability of future generations of Russians to understand this principle. Only then that it will be possible for Canadian companies active in Russia to contribute to environmental awareness, instead of merely lining up with their Russian counterparts to get what they can out of the earth.

Appendix

General data of Russia: http://zones.rin.ru/cgi-bin/search_e.cgi?z=RU&r=0;

<http://www.acdi-cida.gc.ca/CIDAWEB/webcountry.nsf/VLUDocEn/Russia-Factsataglance>

Current map of the Russian Federation: http://map.rin.ru/index_e.html

Map of the Russian Federation in 1998: <http://www.nicholasandalexandra.com/russmap3.html>

Questions that could be studied further:

- An analysis of the effects of the changes to legislation and policy regarding mining from 1996-2003
- The effectiveness of the program to neutralize the uranium zone in Kazakhstan.
- The future of the coal mining industry in Russia and the Ukraine
- Analysis of various mining impacts in the far north on the environment: Water, soil, air
- Relationship of indigenous peoples and mining
- The role of the World Bank institutions in Russian mining; the outcome of recommended mitigation measures on World bank projects
- The role of Export Credit Agencies in Russian mining
- The full costs of mining in Russia by Canadian companies

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